TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman Lynn Greer, Director Melvin Malone, Director



RECULATORY AUTH.

102 APR 4 460 James Robertson Parkway Nashville, Tennessee 37243-0505

EXECUTIVE SECRETARY

April 4, 2002

Mr. Kerry Williams Williams, Jerrolds, Godwin & Nichols, PLLC 706 Main Street Savannah, TN 38372

RE: Docket No. 00-01105-Compliance Audit Aqua Utilities, Inc.

Dear Mr. Williams:

In reference to your questions dated March 19, 2002 we have attached the enclosed responses.

While we encourage every utility under our jurisdiction to contact us regarding information about the policies of the Tennessee Regulatory Authority, it is the responsibility of every regulated utility to develop a basic understanding of how the regulatory process works and comply with all directives that may pertain specifically to them. Examples of some of the sources of information are National Association of Regulatory Utility Commissioners and Tennessee Regulatory Authority Rules (Chapter 1220). If you need any further information regarding this docket please submit your requests in writing to the attention of Mr. David Waddell, Executive Secretary.

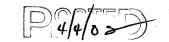
Thank you for your attention to this matter. If you should have any questions, you may contact me at (615) 741-2904, ext. 183.

Sincerely,

Butch Phillips

Utility Rate Specialist III Energy and Water Division

eep02-20aquautilities



Question # 1:

When accruing the customer billings for each month you would use NARUC Account # 141 (a debit entry) and NARUC Account # 400 (a credit entry) for both water and wastewater. However, when recording the revenues you must segregate them by each system. For example, you could use Acct. # 400 for water and 400.1 for wastewater.

Question # 2:

If debt is approved by this Authority then it should generally be recorded on the company's books as a liability. However, the loan in question incurred by Montana Land Company was for that company specifically and not for the utility. Mr. Clausel, in error, put the stock of Aqua up as collateral against the loan. The Directors ruled that this was not proper, but they also believed that the creditor probably would not change the current loan agreement to satisfy the Authority's ruling. As a result, Aqua would still have to seek approval of the debt, but not have any liability recorded on its books since the loan was not for the utility. If the terms of the loan are amended in the future then the lien placed against utility should be removed.

Question # 3:

Yes, it is necessary to allocate all revenues properly between water and wastewater. If you are unable to determine specifically which portion belongs to which an even allocation may be appropriate.

Question #4:

Purchased water should only be allocated to the water system since it is treated water for distribution to Aqua's customers.

Question # 5:

In TPSC Order No. 90-04334 Aqua Utilities was granted a Certificate of Public Convenience and Necessity ("CCN") to operate. The Order also stated that the developer was to contribute the initial treatment plant valued at an estimated \$203,000 for water and \$250,000 for wastewater (\$453,000 total). Since these plant costs were given to Aqua without cost then these donations should be considered Contributions In Aid of Construction.

The accounting entries should be a debit to Utility Plant in Service and a credit to Contributions in Aid of Construction in an equal amount. This entry would have no effect on rate base since the two offset each other. The specific account numbers that the

debit is made to are based on the type of equipment that best fits the account descriptions contained in the plant account listings.

Question # 6:

The account number for Contributions In Aid of Construction for both water and wastewater is NARUC Account No. 271. Remember to separate the contributions by system (Acct. # 271-water & 271.1-wastewater).

Question # 7:

You would use the same account numbers that the original pump (and associated depreciation) was placed in initially. The report issued in the compliance audit used Acct. # 370 as a suggestion. If you feel another account is more appropriate, you may use that one.

Question #8:

Please read the transcript (page 11, lines 17 through 25 and page 12, lines 1 through 10) from the Director's Conference held on December 18, 2001.

Question #9:

The NARUC account number for Accumulated Depreciation is # 108 for both water and wastewater. The accumulated depreciation should also be segregated by water and wastewater (Acct. # 108-water, Acct # 108.1-wastewater, etc.).

Question # 10:

Under the Company's approved tariff, a charge of \$250 is allowed to be charged for each water or wastewater tap installation.

Question # 11:

T. C. A. §65-5-201 authorizes the Authority to set the rates that a public utility may charge. The Company would have to file a petition with this Authority for approval of a separate meter charge for irrigation purposes. Also, a revised tariff would have to be included with the petition at the time of filing.

Question # 12:

No, the Company does not have to restate its 2000 calendar year books and records. It may make a prior period adjustment in the current reporting period.

Question # 13:

Contributions In Aid of Construction (CIAC) is a balance sheet account. It is a contra account to Utility Plant in Service.